



CREATIVITY EXPLORED

AND ITS SUBSIDIARY

(A California Not-For-Profit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND JUNE 30, 2014

DRAFT



accountancy corporation

**CREATIVITY EXPLORED
AND ITS SUBSIDIARY**

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Independent Auditors' Report

The Board of Directors
Creativity Explored

We have audited the accompanying consolidated financial statements of Creativity Explored, Inc. (a California not-for-profit corporation) and its subsidiary, which comprise the consolidated statements of financial position as of June 30, 2015 and June 30, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatements of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation in the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Creativity Explored, Inc. and its subsidiary as of June 30, 2015 and June 30, 2014 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Certified Public Accountants

San Francisco, California

DATE TBD

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CREATIVITY EXPLORED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
CURRENT:		
Cash	\$ 283,963	\$ 200,122
Investments	750,682	750,090
Accounts receivable	20,394	7,896
Contracts receivable	128,368	117,120
Grant receivable	44,410	34,100
Prepaid expenses	44,126	35,124
Inventory	23,679	19,854
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	1,295,622	1,164,306
PROPERTY AND EQUIPMENT, net	75,913	85,776
OTHER:		
Security deposit	21,880	20,153
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 1,393,415</u>	<u>\$ 1,270,235</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable, trade	\$ 34,151	\$ 27,249
Accrued liabilities	25,756	34,586
Accrued vacation	18,196	16,333
Deferred revenue	19,031	26,832
	<hr/>	<hr/>
TOTAL LIABILITIES (ALL CURRENT)	97,134	105,000
NET ASSETS:		
Unrestricted	1,242,121	1,165,235
Temporarily restricted	54,160	-
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TOTAL NET ASSETS	1,296,281	1,165,235
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,393,415</u>	<u>\$ 1,270,235</u>

See notes to consolidated financial statements.

CREATIVITY EXPLORED

CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2015		
	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT:			
Art sales, net	\$ 122,419	\$ -	\$ 122,419
LLC royalty income, net	3,108	-	3,108
Foundation and corporate grants	63,119	16,500	79,619
Government grants	-	81,520	81,520
Government contracts	1,459,915	-	1,459,915
Corporate gifts	13,311	-	13,311
Individual gifts	151,285	-	151,285
Special events, net	119,786	-	119,786
In-kind contributions	33,252	-	33,252
Miscellaneous income	3,965	-	3,965
Interest and dividend income	147	-	147
Unrealized gain	259	-	259
Net assets released from restriction	43,860	(43,860)	-
	2,014,426	54,160	2,068,586
EXPENSES:			
Program services	1,557,510	-	1,557,510
General and administrative	181,739	-	181,739
Fundraising	198,291	-	198,291
	1,937,540	-	1,937,540
INCREASE IN NET ASSETS	76,886	54,160	131,046
NET ASSETS, beginning of year	1,165,235	-	1,165,235
NET ASSETS, end of year	\$ 1,242,121	\$ 54,160	\$ 1,296,281

See notes to consolidated financial statements.

CREATIVITY EXPLORED

CONSOLIDATED STATEMENT OF ACTIVITIES

	Year Ended June 30, 2014		
	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT:			
Art sales, net	\$ 111,367	\$ -	\$ 111,367
LLC royalty income	39,453	-	39,453
Foundation and corporate grants	28,830	24,000	52,830
Government grants	-	34,100	34,100
Government contracts	1,440,285	-	1,440,285
Corporate gifts	11,721	-	11,721
Individual gifts	144,003	-	144,003
Special events, net	104,808	-	104,808
In-kind contributions	57,692	-	57,692
Miscellaneous income	4,856	-	4,856
Interest and dividend income	1,583	-	1,583
Unrealized losses	(723)	-	(723)
Net assets released from restriction	76,751	(76,751)	-
	2,020,626	(18,651)	2,001,975
EXPENSES:			
Program services	1,520,911	-	1,520,911
General and administrative	179,149	-	179,149
Fundraising	133,936	-	133,936
	1,833,996	-	1,833,996
INCREASE (DECREASE) IN NET ASSETS	186,630	(18,651)	167,979
NET ASSETS, beginning of year	978,605	18,651	997,256
NET ASSETS, end of year	\$ 1,165,235	\$ -	\$ 1,165,235

See notes to consolidated financial statements.

CREATIVITY EXPLORED

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015

	Program Services			Management and General	Fundraising	Total
	CE Programs	Gallery	Total			
Personnel expenses:						
Salaries and wages	\$ 780,637	\$ 236,839	\$ 1,017,476	\$ 62,202	\$ 140,686	\$ 1,220,364
Payroll taxes	62,469	20,091	82,560	5,245	11,240	99,045
Employee health insurance benefits	86,100	10,083	96,183	15,609	12,170	123,962
Volunteer and staff incentives	3,398	1,031	4,429	594	621	5,644
Workers' compensation insurance	16,244	6,768	23,012	3,388	1,354	27,754
Total personnel expenses	948,848	274,812	1,223,660	87,038	166,071	1,476,769
Rent	118,040	33,726	151,766	8,431	8,431	168,628
Other professional services	1,518	21,419	22,937	21,349	4,072	48,358
Donated services expense	-	5,373	5,373	17,754	10,124	33,251
Utilities	14,171	3,262	17,433	814	815	19,062
Telephone	6,429	4,506	10,935	4,988	941	16,864
Depreciation	9,149	4,265	13,414	2,817	-	16,231
Janitorial	11,400	2,880	14,280	1,440	-	15,720
Expendable equipment	8,744	2,736	11,480	555	-	12,035
Household supplies	8,348	2,063	10,411	771	-	11,182
Office/gallery supplies	4,030	3,360	7,390	2,132	788	10,310
Guest artist fees	9,833	-	9,833	-	-	9,833
Postage	-	6,021	6,021	363	2,884	9,268
Insurance	5,489	2,287	7,776	915	457	9,148
Exhibition expenses	-	7,841	7,841	-	465	8,306
Merchant service account charge	-	299	299	7,525	-	7,824
Building repair and maintenance	5,478	1,432	6,910	673	-	7,583
Printing	-	5,667	5,667	-	1,679	7,346
Accounting service	-	-	-	7,040	-	7,040
Shipping and delivery	-	5,937	5,937	131	-	6,068
Travel and mileage	156	864	1,020	4,401	112	5,533
Community trips	5,479	-	5,479	-	-	5,479
Miscellaneous expenses	1,962	428	2,390	2,766	-	5,156
Advertising	-	3,631	3,631	21	-	3,652
Payroll processing fees	-	-	-	3,569	-	3,569
Artist party expenses	2,021	-	2,021	285	-	2,306
Fees and licenses	496	1,027	1,523	577	20	2,120
Employee benefit admin fees	-	-	-	1,798	-	1,798
Meeting expense	136	230	366	1,230	174	1,770
Bank charges	-	50	50	1,529	-	1,579
Staff development/training	284	366	650	32	597	1,279
Hospitality/development	-	-	-	-	661	661
Equipment repair and maintenance	330	291	621	-	-	621
Equipment lease and rental	-	-	-	596	-	596
Subscriptions and publications	-	396	396	199	-	595
	\$ 1,162,341	\$ 395,169	\$ 1,557,510	\$ 181,739	\$ 198,291	\$ 1,937,540

See notes to consolidated financial statements.

CREATIVITY EXPLORED

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

	Program Services			Management and General	Fundraising	Total
	CE Programs	Gallery	Total			
Personnel expenses:						
Salaries and wages	\$ 745,527	227,234	\$ 972,761	\$ 61,985	\$ 93,569	\$ 1,128,315
Payroll taxes	61,400	18,709	80,109	4,774	8,055	92,938
Employee health insurance benefits	65,872	2,278	68,150	26,663	6,434	101,247
Volunteer and staff incentives	14,195	5,915	20,110	1,040	1,183	22,333
Workers' compensation insurance	5,285	910	6,195	554	492	7,241
Total personnel expenses	892,279	255,046	1,147,325	95,016	109,733	1,352,074
Rent	102,841	29,383	132,224	7,346	7,346	146,916
Other professional services	3,068	34,571	37,639	24,123	4,862	66,624
Donated services expense	14,779	32,295	47,074	9,563	1,056	57,693
Utilities	16,265	3,766	20,031	942	942	21,915
Telephone	5,569	4,264	9,833	3,445	878	14,156
Depreciation	10,925	3,549	14,474	1,820	248	16,542
Restricted grant expenses	16,122	-	16,122	-	-	16,122
Janitorial	10,720	3,020	13,740	1,510	-	15,250
Expendable equipment	5,220	568	5,788	-	1,368	7,156
Household supplies	9,246	1,882	11,128	872	-	12,000
Office/gallery supplies	3,578	3,198	6,776	3,323	469	10,568
Guest artist fees	1,000	-	1,000	-	-	1,000
Postage	62	7,280	7,342	350	3,195	10,887
Insurance	9,597	3,999	13,596	1,599	800	15,995
Exhibition expenses	-	5,679	5,679	33	530	6,242
Merchant service account charge	-	299	299	9,103	-	9,402
Building repair and maintenance	4,392	2,295	6,687	536	-	7,223
Printing	-	5,547	5,547	1,117	1,502	8,166
Accounting service	-	-	-	6,430	-	6,430
Shipping and delivery	-	3,391	3,391	197	6	3,594
Travel and mileage	117	186	303	81	37	421
Community trips	5,132	-	5,132	177	-	5,309
Miscellaneous expenses	1,724	167	1,891	708	-	2,599
Advertising	375	72	447	-	345	792
Payroll processing fees	-	-	-	3,478	-	3,478
Artist party expenses	1,977	-	1,977	-	-	1,977
Fees and licenses	557	500	1,057	639	75	1,771
Employee benefit admin fees	-	-	-	2,300	-	2,300
Meeting expense	43	71	114	1,209	85	1,408
Bank charges	-	89	89	563	-	652
Staff development/training	2,073	369	2,442	278	434	3,154
Hospitality/development	-	-	-	-	25	25
Equipment repair and maintenance	1,091	217	1,308	1,336	-	2,644
Equipment lease and rental	-	-	-	601	-	601
Subscriptions and publications	-	331	331	455	-	786
Artist exhibition entry fees/materials	125	-	125	-	-	125
	\$ 1,118,877	\$ 402,034	\$ 1,520,911	\$ 179,149	\$ 133,936	\$ 1,833,996

See notes to consolidated financial statements.

CREATIVITY EXPLORED

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2015	Year Ended June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 131,046	\$ 167,979
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Depreciation expense	\$ 16,231	\$ 16,541
Stock donation	(151)	-
Realized and unrealized (gain) loss on investments	(294)	723
(Increase) decrease in assets:		
Accounts receivable	(12,497)	2,780
Contracts receivable	(10,310)	2,839
Grants receivable	(11,248)	(446)
Prepaid expenses	(9,002)	(21,276)
Inventory	(3,825)	1,351
Security deposit	(1,727)	(1,727)
Increase (decrease) in liabilities:		
Accounts payable, trade	6,902	12,535
Accrued liabilities	(8,830)	18,392
Accrued vacation	1,863	(17,372)
Deferred revenue	(7,801)	17,741
	(40,689)	32,081
NET CASH PROVIDED BY OPERATING ACTIVITIES	90,357	200,060
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(6,368)	(6,408)
Proceeds from sale of investments	655,141	339,062
Purchase of investments	(655,288)	(514,648)
NET CASH USED BY INVESTING ACTIVITIES	(6,515)	(181,994)
CASH FLOWS FROM FINANCING ACTIVITIES		
NET CASH PROVIDED BY FINANCING ACTIVITIES	-	-
INCREASE IN CASH	83,841	18,066
CASH, beginning of year	200,122	182,056
CASH, end of year	\$ 283,963	\$ 200,122

See notes to consolidated financial statements.

CREATIVITY EXPLORED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2015 AND JUNE 30, 2014

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of activities:

Creativity Explored was incorporated in 1982 as a non-profit organization in the State of California. The Organization's mission is to provide a creative arts program for persons with developmental disabilities in the San Francisco Bay Area. The Organization serves approximately 130 such individuals.

Creativity Explored Licensing was formed on July 1, 2013 as a Single Member Limited Liability Company for the purpose of furthering the charitable purpose of Creativity Explored, Inc. by engaging in the business of owning, controlling, licensing, selling, promoting, and monetizing artwork or rights therein.

Basis of consolidation:

The consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of Creativity Explored, Inc. and its subsidiary, Creativity Explored Licensing, LLC, (collectively the "Organization"). Creativity Explored, Inc. is the Sole Member of Creativity Explored Licensing, LLC.

The Organization maintains the following programs:

CE Programs:

Studio Arts Program:

Creativity Explored provides studio artists workspace, instruction, and opportunities to explore a wide variety of media. Studio artists choose media and subject matter, and trained professional artists are available to assist each studio artist in exploring the creative process. Printmaking, painting, drawing, sculpture, ceramics, and fabric art are included in a program designed to meet the needs, choices, and preferences of each studio artist.

Community Arts Program:

Creativity Explored provides studio artists opportunities to visit Bay Area museums, galleries, and local artists' studios. Groups of four studio artists are accompanied by an art instructor to experience and participate in the Bay Area arts community.

Gallery:

Exhibitions/Art Services/ Licensing Program:

Creativity Explored professionally exhibits and markets artwork created by the artists working in our studios. Exhibitions occur on a regular basis in our on-site gallery, off-site in private and public galleries, and in corporate and community spaces throughout the Bay Area. Revenue generated by these program activities is shared between the organization and the studio artist. Revenue from the sale of original artwork is shared 50/50% (CE/studio artist). When CE licenses art to be reproduced on products manufactured and sold by others, royalty income is shared 60/40% (CE/studio artist).

CREATIVITY EXPLORED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2015 AND JUNE 30, 2014

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Financial statement presentation:

The Organization prepares its financial statements following professional accounting standards where the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the three net asset categories follows:

Unrestricted net assets:

The portion of net assets that is neither temporarily restricted nor permanently restricted by donor imposed stipulations.

Temporarily restricted net assets:

The portion of net assets whose use by the Organization is limited by donor imposed stipulations that either will be fulfilled or expire by passage of time.

Permanently restricted net assets:

The portion of net assets whose use by the Organization is limited by donor imposed stipulations that the net assets be held in perpetuity and its income be used for the stipulated purposes.

Investments:

The Organization invests in interest bearing money market funds and certificates of deposits with maturities of one year or less. All investments are carried at quoted market prices as of the last trading date of the Organization's fiscal year. Contributions of investments are recorded at quoted market prices at the date of donations and are sold as soon as reasonably possible. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur as part of unrestricted net assets. Unrealized gains and losses that result from market fluctuations are the differences between the investment's cost basis and the sale or maturity settlement of the investment. Dividend and interest income are accrued when earned.

Receivables:

Pledges and grants receivable are either unconditional or conditional. Unconditional pledges and grants receivable are pledges or grants that depend only on the passage of time or the demand by the promisor for performance. A conditional pledge or grant receivable is a promise that depends on the occurrence of a specified future and uncertain event to bind the promisor. Unconditional pledges and grants receivable represent the remaining amounts due from the donors who have pledged funds to the Organization for use in its programs. There were no conditional promises as of June 30, 2015 and June 30, 2014.

Promises to give that are expected to be collected after one year are discounted using a current discount rate. During fiscal years 2015 and 2014, the Organization did not have any long-term pledges. The Organization does not record an allowance for doubtful accounts as most receivables are fully collectible. It is the Organization's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

Contracts receivable consist of amounts billed to GGRC.

CREATIVITY EXPLORED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2015 AND JUNE 30, 2014

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property and equipment:

All acquisitions of property and equipment in excess of \$1,500 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Property and equipment are depreciated using the straight-line method over useful lives ranging from 5 to 15 years. Leasehold improvements are amortized over the shorter of the life of the lease or the useful life of the improvements. Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Income taxes:

The Organization has received tax-exempt status under the Internal Revenue Code Section 501(c)(3) and under the California Revenue Code Section 23701(d).

Inventory:

Inventory consists primarily of books, note cards and tee-shirts and is stated at the lower of cost or market, using the first-in first-out methodology.

Revenue recognition:

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support or permanently restricted support, depending on the absence or existence of donor-imposed restrictions, as applicable. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted contributions where the restrictions are met in the same year as the contributions are received are reported as increases in unrestricted net assets. Contributions restricted for the purchase of long-lived assets are reported as unrestricted support when spent for that purpose.

CREATIVITY EXPLORED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2015 AND JUNE 30, 2014

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued):

Revenue recognition (continued):

Fees and grants from governmental agencies are deemed to be exchange transactions and are therefore not treated as contributions. Revenue from such activities is shown under the caption "fees for services" in the statements of activities.

Art sales:

The Organization reports the sale of original art net of supplies and related payments to artists, and art products net of product production costs.

Leasing of Art work:

The Organization receives advance payments for the use of artwork to be displayed in various facilities. This revenue is recorded as the artwork is displayed, and advance payments are recorded as deferred revenue.

Gift Cards:

Revenue is recognized on gift cards when the gift cards are redeemed. Deferred revenue is recorded when the gift cards are purchased.

Government contracts:

The Organization contracts with Golden Gate Regional Center ("GGRC") to deliver services to people with developmental disabilities (eligible GGRC clients) as specified on the Program Design submitted to and approved by Golden Gate Regional Center. GGRC pays the Organization a fee-for-service rate that is determined each year depending on availability of funding provided to GGRC by the California Department of Developmental Services. (GGRC is a nonprofit entity contracting with the CA DDS to administer services for people with developmental disabilities residing in San Francisco, San Mateo, and Marin counties). The Organization submits invoices to Regional Centers monthly that contain attendance records of each person receiving services. Fees for services are paid based on services provided.

In-kind contributions:

Significant donated property and equipment is recorded at estimated fair value at the date of receipt. Contributed services, which require a specialized skill and which the Organization would have paid for if not contributed, have been recorded at their estimated fair value. Contributed materials and art supplies have not been recognized in the accompanying financial statements because the amounts are immaterial. In addition, a substantial number of volunteers have donated significant amounts of time in promoting the Organization's programs. The value of donated volunteer services has not been recognized in the accompanying financial statements because they did not meet the criteria for specialized skill or would not have been paid for if not contributed.

Functional allocation of expenses:

Costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

CREATIVITY EXPLORED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2015 AND JUNE 30, 2014

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued):

Reclassifications:

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

Subsequent events:

Management has evaluated subsequent events through DATE TBD, the date which the financial statements were available for issue. No significant events were identified that require any additional disclosure.

Note 2. NATURE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3. CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject the Organization to credit risk consist primarily of cash, investments, and pledges receivable. The Organization maintains cash with commercial banks and other major financial institutions. Investments include overnight investments, and money market funds. At times, such amounts might exceed FDIC limits. The Organization's investments have been placed with high quality financial institutions. The Organization monitors these investments and has not experienced significant credit losses.

A significant amount of the Organization's costs of providing services are reimbursed by the Golden Gate Regional Center (GGRC). These services and programs are entitlements for persons with developmental disabilities. The Organization depends heavily on these reimbursements for its revenue, and its ability to obtain reimbursements at a sufficient economic level may be dependent upon current and future overall economic conditions. For the years ended June 30, 2015 and June 30, 2014, GGRC contributed approximately 71% and 71%, respectively, of total revenue and support. Contract receivables due from GGRC were 67% and 73% of the total outstanding balance for the years ended June 30, 2015 and June 30, 2014, respectively.

The Organization is vulnerable to the inherent risk associated with revenue that is substantially dependent on government funding, public support and contributions. The continued growth and well-being of the Organization is contingent upon successful achievement of its long-term revenue-raising goals.

CREATIVITY EXPLORED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2015 AND JUNE 30, 2014

Note 4. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	June 30,	
	2015	2014
Furniture and equipment	\$ 126,289	\$ 119,921
Buildings and improvements	<u>429,891</u>	<u>429,891</u>
Totals	556,180	549,812
Less accumulated depreciation	<u>480,267</u>	<u>464,036</u>
Property and equipment, net	<u>\$ 75,913</u>	<u>\$ 85,776</u>

Depreciation expense was \$16,231 and \$16,541 for the years ended June 30, 2015 and June 30, 2014, respectively.

Note 5. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consisted of the following for the year ended at June 30, 2015.

	Beginning Balance	Grants Committed	Released Restrictions	Total
Art supplies	\$ -	\$ 4,000	\$ (4,000)	\$ -
Creativity explored programs	-	12,500	(2,750)	9,750
Gallery and marketing programs	-	<u>81,520</u>	<u>(37,110)</u>	<u>44,410</u>
Temporarily restricted net assets	<u>\$ -</u>	<u>\$ 98,020</u>	<u>\$ (43,860)</u>	<u>\$ 54,160</u>

Temporarily restricted net assets consisted of the following for the year ended at June 30, 2014.

	Beginning Balance	Grants Committed	Released Restrictions	Total
Strategic planning and provider education	\$ 788	\$ 4,000	\$ (4,788)	\$ -
Creativity explored programs	17,863	34,100	(51,963)	-
Gallery and marketing programs	<u>-</u>	<u>20,000</u>	<u>(20,000)</u>	<u>-</u>
Temporarily restricted net assets	<u>\$ 18,651</u>	<u>\$ 58,100</u>	<u>\$ (76,751)</u>	<u>\$ -</u>

CREATIVITY EXPLORED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2015 AND JUNE 30, 2014

Note 6. FUNDRAISING AND SPECIAL EVENTS:

Special event expenses were as follows during the years ended June 30:

	<u>2015</u>	<u>2014</u>
Gross revenues	\$ 179,318	\$ 127,080
Art auction	54,845	58,775
Less direct expenses	<u>(114,377)</u>	<u>(81,047)</u>
Net special event revenue	<u>\$ 119,786</u>	<u>\$ 104,808</u>

Fundraising expenses were due as follows for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Special event expenses	\$ 114,377	\$ 81,047
General fundraising expenses	<u>198,291</u>	<u>134,492</u>
Total	<u>\$ 312,668</u>	<u>\$ 215,539</u>

Note 7. RETIREMENT PLAN:

The Organization maintains a 401(k) plan for all qualified employees. Eligible employees may contribute to the Plan. The Organization has not made contributions to the Plan for the years ended June 30, 2015 and June 30, 2014.

Note 8. CONTINGENCIES:

In June 2014, California passed a budget that did not result in any changes to state funding available to support persons with developmental disabilities that affected Creativity Explored's fee-for-service contract funded by the DDS through Regional Center contracts.

During the year end June 30, 2015, 71% of Creativity Explored's income was earned through a Regional Center contracts (excluding donated goods and services). During the fiscal year, both studios were operating at maximum capacity for most of the year, resulting in a \$54,000 increase in revenues received from these contracts.

The Organization continues to proactively address diversification of revenues by increasing earned and contributed income activities. The Organization conducted a three-year sensitivity analysis in March 2015, and subsequently acknowledges the need to increase income in order to continue to be able to meet organization goals. As a result, in August 2015, the Board of Directors approved use of funds from the investment account to be directed towards expansion of the organization's licensing program across the next three years.

CREATIVITY EXPLORED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2015 AND JUNE 30, 2014

Note 9. LEASE COMMITMENTS:

The Organization is obligated under a non-cancelable operating lease agreement for its main facility in San Francisco, California. The lease expires on December 31, 2023 and requires monthly payments of \$6,000, which will increase by \$200 every two years.

The Organization extended their lease at their second facility on July 1, 2012 which will expire June 30, 2017. The lease requires monthly payments of \$4,316 which increase annually by various amounts. The security deposit will increase by equal amounts.

The Organization's future minimum lease payments are as follows:

Years Ending June 30,	
2016	\$ 181,389
2017	184,718
2018	74,400
2019	75,600
2020	76,800
Thereafter	<u>278,400</u>
	<u>\$ 871,307</u>

Rent expense for the years ended June 30, 2015 and June 30, 2014 was \$168,628 and \$146,916, respectively.

Note 10. RELATED PARTY TRANSACTIONS:

Contributions received from the Board of Directors or from companies with which the Board of Directors are affiliated were approximately \$33,119 and \$42,000 for the years ended June 30, 2015 and June 30, 2014, respectively.